



HARVARD UNIVERSITY RETIREMENT CENTER

The Roth contribution option for the Harvard University TDA Plan



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The Roth contribution option for the TDA Plan

Harvard is pleased to offer an additional way to save for retirement through Roth contributions to your TDA Plan. To help you decide whether the Roth contribution option is the right savings choice for your situation, please review this brochure. If you have questions, you're encouraged to contact the Harvard University Retirement Center (HURC) at **800-527-1398**.

You may be familiar with how pretax contributions and earnings work through the TDA Plan—your contributions are made on a pretax basis when you participate in the TDA Plan. This means the money comes out of your paycheck **before** your income is taxed, which may lower your taxable income and saves you money on taxes today. You don't pay taxes on your contributions or any earnings until you take the money out, typically in retirement. When withdrawing money from your TDA Plan, you pay ordinary income taxes on the amount withdrawn.

With the Roth contribution option, your contribution is taken out of your paycheck **after** your income is taxed, which does not lower your current taxable income. You might be wondering why contributing after-tax income to the Roth option may be to your advantage. **Any earnings accrue tax deferred and you pay no taxes when you withdraw the earnings from your Roth account in the future, provided you're at least age 59½ or disabled (or after your death) and your withdrawal is made at least five years after your first Roth contribution.**



Is the Roth contribution option right for you?

Should you pay taxes now or later? It depends on your situation. Generally, if you anticipate being in a higher tax bracket during retirement, you may benefit from making Roth contributions. If you think you'll be in a lower tax bracket at retirement—or if you cannot afford to make contributions without the current tax savings—you may prefer to make pretax contributions. You may also choose to split your contributions between both options.

You often hear about the importance of asset diversification when investing: spread your funds across asset classes and don't put all your eggs in one basket. Roth contributions are another way of diversifying your investments based on tax status. The Roth contribution option may potentially help you to manage your taxes in retirement by providing you with a source of income that is tax free.

You may benefit from Roth if you...

- Are just starting out and are currently in a lower tax bracket than you expect to be at retirement.
- Want to make Roth contributions greater than the individual IRA limit, or if you earn too much to contribute to an individual Roth IRA.
- Wish to diversify your financial assets among taxable and tax-free accounts when making withdrawals.
- Want a hedge against the uncertainty of future tax rates by having both pretax and after-tax assets in your retirement account.
- Are interested in passing a portion of your retirement assets to your heirs tax free.

Comparing Roth after-tax and pretax contributions

The following table is intended to help you compare the differences between making a \$3,000 annual Roth after-tax contribution and a \$4,000 pretax contribution to the TDA Plan. The illustration assumes an annual return of 6% over 20 years, and the future value of your account will depend on the actual rate of return plus your tax bracket before and after you retire.

The bottom three rows of the chart reveal three scenarios illustrating different tax situations.

If you expect your tax bracket to increase, the Roth contribution option may provide you with greater tax savings over the long run. If you anticipate that you will be in a lower tax bracket in the future, pretax contributions may benefit you more in the long run.

It's difficult to predict what your future tax situation will be, but you'll want to consider that and also take into consideration what type of contribution will help your current tax situation as you compare the two TDA Plan contribution options. Remember, you can also split your contributions among the two options.

	ROTH AFTER-TAX CONTRIBUTIONS	PRETAX CONTRIBUTIONS
Annual contribution	\$3,000	\$4,000
Annual tax savings	\$0	\$1,000
Effect on annual income	(\$3,000)	(\$3,000)
Future account value	\$116,978	\$155,971
Tax bracket remains the same in retirement. Future account value (after taxes paid)—assuming 25% bracket before and after retirement	\$116,978	\$116,978
Tax bracket is higher in retirement. Future account value (after taxes paid)—assuming 25% bracket while working and 30% bracket after retirement	\$116,978	\$109,180
Tax bracket is lower in retirement. Future account value (after taxes paid)—assuming 25% bracket while working and 20% bracket after retirement	\$116,978	\$124,777

This illustration is hypothetical and not intended to represent the performance of any specific investment product and cannot be used to predict or project investment performance. Charges and expenses that would be associated with an actual investment are not reflected. Distributions prior to age 59½ are subject to a 10% penalty tax, unless an exception applies.

Q&A

General

Q: What is a Roth IRA, and why is the Roth feature in the TDA Plan different?

A: Both are established with after-tax contributions. However, Roth IRA accounts are established by individuals outside of a retirement plan. Roth contributions are part of the TDA Plan sponsored by Harvard. Individual Roth IRA limits are restricted based on income levels, whereas the Roth contributions to the TDA Plan are not subject to income limits.

Q: What are the benefits of the Roth contribution option in the TDA Plan?

A: Roth contributions provide additional flexibility in planning retirement income—your contributions are made after taxes, and your qualified withdrawals of earnings in retirement are not taxed as long as the five-year holding requirement has been met. This can help protect you against higher future ordinary income tax rates. Additionally, there are no maximum income limits for Roth contributions within the TDA (unlike Roth IRAs), and contribution limits are higher than those applicable to Roth IRAs.

Q: Who might benefit from the Roth TDA option?

A: In general, the Roth TDA option might benefit individuals who can afford to pay taxes now on their TDA contributions, employees earlier in their careers for whom pretax contributions may not be as beneficial, participants who want to contribute more than the contribution currently allowed to a Roth IRA, and those who believe they may be in a higher tax bracket in retirement.

The Roth TDA may also benefit individuals who seek to maximize tax flexibility when withdrawing their savings in retirement (e.g., looking for a balance of taxable and nontaxable withdrawals). However, those considering making Roth TDA contributions should review their individual circumstances with a tax advisor, or consider scheduling a one-on-one consultation with a TIAA representative.

Making Roth contributions

Q: How much can I contribute using the Roth TDA option?

A: You can make any combination of pretax and after-tax Roth contributions to your plan as long as your total does not exceed the IRS annual limit. In addition to regular contributions, you also may contribute an additional “catch-up” amount if you are age 50 or over during the calendar year. Note that the contribution limits are adjusted by the IRS from time to time based on increases in the cost-of-living index. Limits are generally announced in October for the following calendar year.

Q: Are there income limits with the Roth TDA option?

A: No. The income limits that apply to Roth IRA contributions do not apply to the Roth option within the Harvard TDA Plan.

Q&A

Q: How do I elect to make Roth contributions to my TDA Plan?

A: You elect to make Roth contributions to your TDA Plan by completing a new salary reduction agreement. Go to the Harvard Human Resources website at hr.harvard.edu, then select Harvard University Retirement Center (HURC) at the bottom of any page. Follow the screen prompts to “Manage Your Contributions.” If you do not have an existing TDA Plan account, you can enroll online by going to TIAA.org/harvard or by calling the HURC at **800-527-1398**, weekdays, 8 a.m. to 5 p.m. (ET).

Q: What investment options do I have for Roth contributions to the TDA Plan?

A: You can choose from the same investment menu of carefully chosen investments that is available for pretax contributions in the TDA Plan: target-date funds from Vanguard, mutual funds from Vanguard and Schwab, and annuities from TIAA. However, the brokerage option is **not** available for your Roth contributions. Your Roth and pretax TDA Plan contributions can be directed to different investments.

Q: I was auto-enrolled in the TDA Plan. Does that affect my ability to elect Roth contributions to the TDA Plan?

A: No. You may elect to have some or all of your contributions directed to the Roth option in the TDA Plan. However, if you make this change, auto-escalation will no longer apply to your pretax contributions. Your pretax TDA Plan contributions will continue but will no longer automatically increase each January. You may increase or decrease your contributions at any time.

Q: Can I make pretax and Roth contributions to the TDA Plan?

A: Yes, you may contribute to both, as long as you do not exceed the IRS’ maximum annual contribution limit.

Q: Can I convert my pretax TDA contributions to Roth contributions?

A: Yes. To initiate a Roth in-plan conversion, contact the HURC at **800-527-1398**, weekdays, 8 a.m. to 10 p.m. (ET).

Withdrawing money from your Roth TDA account

Q: When can I take a tax-free withdrawal from my Roth contributions in the TDA Plan?

A: Tax-free withdrawals of Roth contributions may be made as permitted by the terms of the Plan. Once a participant has incurred a distributable event under the terms of the Plan, earnings are available to be withdrawn tax free after the end of the five-year period following the initial Roth contributions made to your TDA Plan account and you have: attained age 59½, become disabled, or died.

Q: How is the five-year time frame for my Roth contributions determined?

A: The five-year period begins the first day of the year in which you make your first Roth contribution to the TDA Plan. For example, if Roth contributions to the TDA Plan start in May 2020, one year toward your five-year requirement will be met at the end of the year.

Q: Can I take hardship withdrawals or loans from my Roth TDA balance?

A: Hardship withdrawals may be taken from your Roth TDA balance under the same rules that apply to hardship withdrawals of pretax funds. However, if it has been less than five years since your first Roth contribution, any investment earnings may be taxable and subject to a 10% penalty.

There is no loan option available from your Roth contributions.

Q&A

Q: Can I roll over an account from a previous employer to Harvard's new Roth TDA?

A: No, rollovers into the Harvard TDA Roth option are not available.

Q: Can I roll over my Roth TDA savings from Harvard's TDA to my new employer's plan if I leave the University?

A: In some cases. You can roll over your Roth TDA balance to another employer's retirement plan **only if** the new plan accepts Roth rollover funds. Check with your new employer to make sure their plan can accept a Roth rollover before you start the process.

Q: Are Roth assets within my TDA Plan account subject to IRS required minimum distribution rules?

A: Yes. Required minimum distribution (RMD) rules for retirement plans also apply to Roth contributions held in your TDA Plan account. You must begin RMDs no later than April 1 of the calendar year in which you reach your required beginning date (RBD). Your RBD is the year in which you turn age 72 if born in 1950 or earlier; or age 73 if born between 1951 and 1958. Starting in 2024, RMDs for Harvard Retirement Plan Roth 403(b) accounts will not be required for participants for whom minimum distributions were not required before January 1, 2024.

Roth IRAs are generally not subject to the RMD rules and do not require withdrawals until after death. You can roll over your Roth contribution account balance into a Roth IRA before January 1 of your required beginning date. If you roll over your Roth contribution account balance into a **newly established** Roth IRA, your five-year time frame for the Roth IRA begins the date you roll over the Roth account. Your five-year period under the Harvard TDA Plan is **not** carried over to the Roth IRA with the money. If you roll over a Roth contribution account balance into **an established Roth IRA**, the five-year Roth IRA period should begin on the date of your first contribution to the Roth IRA and is unaffected by the transfer of your Roth contribution account balance from Harvard.

Because the RMD and Roth rollover rules are complicated, you should discuss your individual circumstances with a tax advisor before you roll over your Roth account balance into a Roth IRA or take distributions from your account.



Summarizing the Roth contribution option

You expect to be in a higher tax bracket when you retire

It may be difficult to predict what your tax situation will be in the future. But, if you think you will be in a higher tax bracket in retirement than you are right now, you may want to consider choosing the Roth option. You will pay taxes on the contributions now—potentially at a lower tax rate—and then receive your assets tax free when you're in a higher tax bracket.

You earn too much to contribute to a Roth IRA

If you earn more than the adjusted gross income (AGI) limits allowed for contributing to a Roth IRA, you might want to consider making Roth contributions to your retirement plan. Consult your tax advisor for details.

You want to make higher contributions than allowed through a Roth IRA

You can maximize your after-tax savings by contributing up to the maximum allowable limit set by the IRS each year for TDA, which is higher than the maximum for the Roth IRA.

You want to pass on tax-free income to your heirs

If you are near retirement and believe you will have more than enough savings to meet your immediate retirement income needs, Roth contributions may be a way you can pass some of your Roth retirement assets to your beneficiaries tax free, as long as the five-year rule for qualified distributions is satisfied.

Now that you have a better understanding of the Roth contribution option, you may be in a better position to decide whether Roth contributions will benefit you. Because of the tax implications associated with traditional pretax and after-tax contributions, you should consult with a tax advisor regarding your situation. You may also want to meet with a TIAA representative on-site at Harvard or a local TIAA office.



